



HPLC-PR  
Vol II



Presentation

Y-HPC  
1983

Tom O'Flaherty

AUTHOR

Vol II

Assessing The Market for Computer

TITLE

Services in Commercial Lines  
Companies

DATE  
LOANED

BORROWER'S NAME

Presentation

Y-HPC  
1983

Vol II

ASSESSING THE MARKET FOR  
COMPUTER SERVICES IN COMMERCIAL  
LINES COMPANIES

MANAGEMENT PRESENTATION

DECEMBER 6, 1983

Presentation  
Given 12/6/83  
Code YHPC  
TO HARTFORD  
INSURANCE  
COMPANY  
Tom O'Flaherty

INPUT



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## OVERVIEW

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- BACKGROUND
  - SCOPE
  - INTERVIEWS
- COMPANY DEMOGRAPHICS
- AUTOMATION STATUS
  - PERSONAL LINES
  - COMMERCIAL LINES
    - CURRENT
    - PLANNED
    - MOTIVATIONS

INPUT



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## OVERVIEW - (cont'd)

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- AUTOMATION DIRECTIONS AND OPPORTUNITIES
  - LEVELS OF INTEREST IN POSSIBLE OFFERINGS
    - SERVICE BUREAU
    - SOFTWARE
    - WORKSTATION
  - REASONS
  - OTHER POTENTIAL BUSINESS AREAS
    - AGENCY - COMPANY INTERFACE
  - CENTRALLY - SUPPORTED QUOTATIONS
- COMPETITIVE ENVIRONMENT
  - GENERAL
  - PMS POSITION
  - DATA CONCEPTS, INC.

**INPUT**



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## OVERVIEW-(cont'd)

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- MARKET OPPORTUNITY
  - MARKET SIZE EXPANDING
  - WORKSTATION OPPORTUNITIES
- SUMMARY
  - FINDINGS
  - RECOMMENDATIONS



BACKGROUND

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## SCOPE OF STUDY

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- ORIGINAL SCOPE:
  - IDENTIFY SEVERAL COMPANIES WHERE THERE WAS A GOOD PROSPECT OF HIGH SELLING CLA SOFTWARE OR SERVICE BUREAU TIMESHARING IN NEAR FUTURE.
  - MARKET PROJECTIONS COULD NOT BE MADE BECAUSE OF INTENTIONAL SKEWING OF SAMPLE.
- EXPANDED SCOPE:
  - IDENTIFY MARKET FOR DISPERSED PROCESSING (ALONG LINES OF DATA CONCEPTS INC. PRODUCT) AND RELATED PRODUCTS.
  - SIZE MARKETS, WHERE FEASIBLE.

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### THREE INTERVIEWING PHASES

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- ONE: TARGETTED TO COMPANIES BELIEVED TO BE RECEPTIVE TO HIG SOFTWARE AND/OR TIMESHARING.
  - RATIONALE: IDENTIFY A FEW GOOD PROSPECTS.
  - PROBLEM: INITIAL RESPONDENTS WERE NOT RECEPTIVE.
- TWO: QUALIFY ON-SITE INTERVIEWS VIA TELEPHONE INTERVIEWS.
  - RATIONALE: COMPANIES WITH FIRM IN-HOUSE OR PMS PLANS WOULD, AT BEST, TAKE TOO LONG TO CHANGE PLANS AND ACQUIRE A HIG PRODUCT/SERVICE.
  - PROBLEM: RECEPTIVITY IMPROVED ONLY marginally.





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### THREE INTERVIEWING PHASES - (cont'd)

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- THREE: FOCUS ALSO ON DISPERSED PROCESSING PLANS AND OPPORTUNITIES.
  - RATIONALE: MANY RESPONDENTS IN PRIOR PHASE HAD IDENTIFIED DCI PRODUCT OR APPROACH.
  - NOTE: MOST PHASE ONE AND TWO INTERVIEWS COULD BE "RETROFITTED" TO PHASE THREE CONTENT DUE TO OPEN-ENDED NATURE OF INTERVIEW PROCESS AND/OR FOLLOWUP TELEPHONE INTERVIEW.



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RESPONDENT COMPANY SIZES

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ENTITY SIZE* (COMMERCIAL DIRECT PREMIUMS)	NUMBER OF ENTITIES* INTERVIEWED		
	TELEPHONE ONLY	ON-SITE	TOTAL
\$15-49.9 million	14	6	20
\$50-99.9 million	3	5	8
\$100-299.9 million	7	9	16
\$300 million and over	<u>0</u>	<u>10</u>	<u>10</u>
TOTAL	24	30	54

\* ENTITY = GROUP, GROUP COMPONENT OR INDEPENDENT COMPANY

INPUT





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COMPANIES INTERVIEWED

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AETNA\*\*

AHMANSON\*

AID INSURANCE\*

AMERICAN FINANCIAL

AMERICAN CONTINENTAL\*

DIXIE\*

AMERICAN MUTUAL LIABILITY\*\*

ANDOVER\*\*

ARMCO\*\*

NORTH PACIFIC\*

ATLANTIC COMPANIES\*\*

AUTO OWNERS\*\*

BERKSHIRE HATHAWAY

KANSAS FIRE AND CASUALTY\*

NATIONAL INDEMNITY OF OMAHA\*

CAPRI\*

CHUBB\*\*

CIGNA\*\*

CINCINNATI FINANCIAL\*

CONTINENTAL WESTERN\*

COVENANT\*\*

CRUM AND FORSTER\*\*

L.W. BEAGLER\*

\*=TELEPHONE INTERVIEW

\*\*=ON-SITE INTERVIEW

INPUT



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COMPANIES INTERVIEWED - (cont'd)

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DODSON\*\*

ELECTRIC INSURANCE\*\*

EMPLOYERS MUTUAL\*

FEDERATED MUTAL\*

FINANCIAL SECURITY\*

GENERAL ACCIDENT\*\*

GRANGE\*

GRAIN DEALERS\*\*

FRANK B. HALL\*\*

HANOVER\*\*

HARLEYSVILLE\*\*

HERITAGE\*\*

INDIANA INSURANCE\*\*

LIBERTY MUTUAL\*\*

MICHIGAN MUTUAL\*

MOTORISTS MUTUAL\*

NATIONAL-NEDERLANDER

FIDELITY SOUTHERN (AND ASSOCIATED COMPANIES)\*

NATIONWIDE\*\*

OLD REPUBLIC\*\*

PENN MUTUAL\*\*

\*=TELEPHONE INTERVIEW

\*\*=ON-SITE INTERVIEW

INPUT





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COMPANIES INTERVIEWED - (cont'd)

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PREFERRED RISK\*

PUBLIC SERVICE\*\*

RANGER\*

ROCKWOOD\*\*

ROYAL\*\*

SENTRY\*\*

SHELBY MUTUAL\*\*

TELEDYNE

TRINITY UNIVERSAL (AND ASSOCIATED COMPANIES)\*

TOKIO MARINE AND FIRE\*\*

UNITED FIRE AND CASUALTY\*

WESTERN INSURANCE\*

WESTERN PREFERRED\*

WESTERN WORLD\*\*

\*=TELEPHONE INTERVIEW

\*\*=ON-SITE INTERVIEW

INPUT



NUMBER OF INTERVIEWS

ENTITY SIZE  
(DIRECT COMMERCIAL PREMIUMS; \$ MILLION)

RESPONDENT TITLE	\$15-44.9			\$50-99.9			\$100-299.9			\$300+			TOTAL		
	T	O	TOT	T	O	TOT	T	O	TOT	T	O	TOT	T	O	TOT
SR/EXEC VP	0	0	0	1	2	3	1	0	1	0	3	3	2	5	7
VP	5	5	10	3	2	5	4	4	8	0	1	1	12	12	24
AVP	3	3	6	0	1	1	0	4	4	0	5	5	3	13	16
DIR/MGR	6	2	8	1	0	1	2	7	9	0	6	6	9	15	24
TOTAL	14	10	24	5	5	10	7	15	22	0	15	15	26	45	71

KEY: T = TELEPHONE  
O = ON-SITE  
TOT = TOTAL



PMS PENETRATION: SURVEY VS. PMS CUSTOMER LIST

<u>SOURCE</u>	<u>ENTITY SIZE</u> <u>(DIRECT PREMIUMS; \$ MILLION)</u>				<u>AVERAGE</u>	
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>	<u>RAW</u>	<u>WEIGHTED</u>
SURREY	20%	13%	38%	30%	26%	30%
PMS	20%	27%	39%	33%	27%	33%





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## DATA CONCEPTS, INC., INTERVIEW

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- EXPLAINED PURPOSE OF STUDY, BUT DID NOT IDENTIFY SPONSOR.
- SPENT HALF DAY WITH DCI.
  - BRIEFED ON COMPANY HISTORY AND BACKGROUND.
  - RECEIVED SEVERAL PRODUCT DEMOS.
  - SPENT CONSIDERABLE TIME WITH THREE PRINCIPALS.
  - RECEIVED CONSIDERABLE WRITTEN MATERIAL.
- ALL INFORMATION IN THIS PRESENTATION CONCERNING DCI FROM PUBLIC SOURCES OR OTHER INTERVIEWS.
  - FIVE INTERVIEWS PROVIDED DATA.



COMPANY  
DEMOGRPAHICS

INPUT



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ENTITY VS. COMPANY SIZING

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SEGMENT SIZE (DIRECT PREMIUMS)	ENTITIES* <u>COMMERCIAL LINES</u>	COMPANIES* <u>ALL LINES</u>
\$300 million or more	35	70
\$100-299 million	40	137
\$50-99 million	31	139
\$10-49 million	145	517
Under \$10 million	<u>401</u>	<u>787</u>
TOTAL	652	1650

\* ENTITIES = GROUPS AND INDEPENDENT COMPANIES.

COMPANIES = INDEPENDENT COMPANIES AND GROUP CONSTITUENTS.

INPUT









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MARKET SIZING BY PREMIUM SIZE: ENTITIES

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SEGMENT SIZE (DIRECT COMMERCIAL LINES PREMIUMS)	NUMBER OF ENTITIES*	
	IN SEGMENT	CUMULATIVE
Over \$1 billion	13	13
\$500-999 million	12	25
\$300-499 million	10	35
\$200-299 million	14	49
\$100-199 million	26	75
\$75-99 million	13	88
\$50-74 million	18	106
\$40-49 million	26	132
\$30-39 million	25	157
\$25-29 million	14	171
\$20-24 million	20	191
\$15-20 million	21	212
\$10-14 million	39	251
\$ 5-9 million	57	308
\$.1-4 million	284	592
Under \$.1 million	60	652

\* ENTITIES = GROUPS OR INDEPENDENT COMPANIES

INPUT



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MARKET SIZING BY PREMIUM SIZE: PREMIUMS

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SEGMENT SIZE (DIRECT COMMERCIAL LINES PREMIUMS)	ENTITIES* IN SEGMENT	PREMIUMS (\$ BILL)	PERCENT OF PREMIUMS	
			IN SEGMENT	CUMULATIVE
Over \$1 billion	13	\$23.5	45.8%	45.8%
\$500-999 million	12	9.6	18.7	64.5
\$300-499 million	10	3.7	7.2	71.7
\$200-299 million	14	3.5	6.8	78.5
\$100-199 million	26	3.9	7.6	86.1
\$75-99 million	13	1.1	2.1	88.2
\$50-74 million	18	1.1	2.1	90.3
\$40-49 million	26	1.2	2.3	92.6
\$30-39 million	25	0.9	1.8	94.4
\$25-29 million	14	0.4	.8	95.2
\$20-24 million	20	0.5	1.0	96.2
\$15-20 million	21	0.4	.8	97.0
\$10-15 million	39	0.5	1.0	98.0
\$5-10 million	57	0.4	.8	98.8
\$.1-4 million	284	0.6	1.2	100.0
Under \$.1 million	<u>60</u>	<u>0</u>	<u>0</u>	<u>100.0</u>
TOTAL	652	\$51.3	100.0%	-

\* ENTITIES = GROUPS OR INDEPENDENT COMPANIES

INPUT



AUTOMATION STATUS:

CURRENT AND PLANNED

INPUT



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STATUS OF PERSONAL LINES AUTOMATION

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AUTOMATION SOURCE	PERCENT OF ENTITIES BY SIZE (COMMERCIAL DIRECT PREMIUMS; \$ MILLION)				
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300*</u>	<u>AVERAGE*</u>
IN HOUSE	60%	50%	38%	90%	78%
VENDOR	30%	38%	56%	30%	34%
PMS	20%	13%	38%	30%	30%
OTHER	10%	25%	19%	0	4%
MANUAL	10%	13%	13%	0	3%

\* WEIGHTED BY COMMERCIAL PREMIUMS.

NOTES:

- COLUMNS MAY TOTAL MORE THAN 100% DUE TO MULTIPLE SOURCES OF AUTOMATION.
- N = 54

INPUT





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MAJOR CHANGES IN PERSONAL LINES AUTOMATION

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PERCENT OF ENTITIES BY SIZE  
(COMMERCIAL DIRECT PREMIUMS; \$ MILLION)

	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>
PERCENT OF ENTITIES PLANNING MAJOR CHANGES	25%	38%	7%	30%

N = 54

INPUT



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COMMERCIAL LINES AUTOMATION: CURRENT

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AUTOMATION SOURCE	PERCENT OF ENTITIES BY SIZE (COMMERCIAL DIRECT PREMIUMS; \$ MILLION)				
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>	<u>AVERAGE*</u>
IN HOUSE	50%	75%	75%	70%	69%
VENDOR	30%	50%	44%	80%	70%
PMS	0	0	19%	20%	18%
OTHER	30%	50%	25%	60%	50%
MANUAL	25%	25%	6%	0	3%

\* WEIGHTED BY COMMERCIAL PREMIUMS.

NOTES:

- COLUMNS MAY TOTAL MORE THAN 100% DUE TO MULTIPLE SOURCES OF AUTOMATION.
- N = 54



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COMMERCIAL LINES AUTOMATION: PLANNED

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AUTOMATION SOURCE	PERCENT OF ENTITIES BY SIZE (COMMERCIAL DIRECT PREMIUMS; \$ MILLION)				
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>	<u>AVERAGE*</u>
IN HOUSE	30%	50%	44%	80%	70%
VENDOR	45%	26%	32%	40%	38%
PMS	30%	13%	19%	20%	21%
OTHER	15%	13%	13%	20%	19%
UNKNOWN	20%	0	7%	0	2%
UNKNOWN	5%	25%	19%	20%	19%

\* WEIGHTED BY PREMIUMS.

NOTES:

- COLUMNS MAY TOTAL MORE THAN 100% DUE TO MULTIPLE SOURCES OF AUTOMATION.
- N = 54



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AUTOMATION SOURCES:  
PERSONAL AND COMMERCIAL LINES

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<u>AUTOMATION SOURCE</u>	<u>PERCENT OF ENTITIES, WEIGHTED AVERAGE</u>		
	<u>PERSONAL LINES</u>	<u>COMMERCIAL LINES</u>	
		<u>CURRENT</u>	<u>PLANNED</u>
IN HOUSE	78%	69%	70%
VENDOR	34%	70%	38%
PMS	30%	18%	21%
OTHER	4%	50%	19%
UNKNOWN	0	0	2%
UNKNOWN	0	0	19%
MANUAL	3%	3%	0

N = 54

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COMMERCIAL LINES SYSTEM NEEDS

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LINES

FUNCTIONS

CURRENT

- INITIAL ENTRY: OFTEN EASY IMPLEMENTATION
- KEY LINE, FIRST OR SECOND

- RATING INCREASINGLY SEEN AS CRITICAL
  - REASON FOR POPULARITY OF MICRO-BASED PACKAGES

PLANNED

- ALL MAJOR LINES

- ALL FUNCTIONS

INPUT



# COMMERCIAL LINES AUTOMATION MOTIVATIONS

PERCENT OF ENTITIES CITING, BY SIZE  
(COMMERCIAL DIRECT PREMIUMS; \$ MILLION)

REASON	AVERAGE				
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>	<u>RAW WEIGHTED*</u>
COST SAVINGS	50%	75%	69%	90%	67% 83%
MANAGEMENT INFORMATION	20%	38%	38%	90%	41% 75%
SPEED/TURNAROUND	30%	63%	50%	0	35% 12%
SERVICE	10%	25%	31%	30%	22% 28%
ACCURACY	15%	25%	25%	10%	19% 13%
COMPETITION	15%	13%	6%	10%	11% 10%
MANAGEMENT CONTROL	0	0	6%	20%	6% 16%

NOTE: • COLUMNS TOTAL MORE THAN 100% DUE TO MULTIPLE RESPONSES.

• N = 54

\* WEIGHTED BY PREMIUMS

INPUT



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## ATTITUDES TOWARD AUTOMATION BENEFITS

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- LITTLE QUANTIFICATION ATTEMPTED.
  - LIMITED TO HEADCOUNT.
  - AUTOMATION USUALLY IN CONJUNCTION WITH OTHER CHANGES.
  - VERIFICATION SKETCHY, RECOGNIZED AS DIFFICULT.
  - BELIEF THAT IMPORTANT BENEFITS MAY BE HARD TO QUANTIFY.
- LITTLE KNOWLEDGE OF COSTS.
  - DP-RELATED COSTS RARELY COLLECTED BY LINE OF BUSINESS.
  - RECOGNITION THAT THIS IS UNSATISFACTORY IN LARGER COMPANIES.
- BOTTOM LINE: WIDELY TAKEN FOR GRANTED THAT COMMERCIAL LINES AUTOMATION DESIRABLE.
  - VERY FEW DISSENTS.



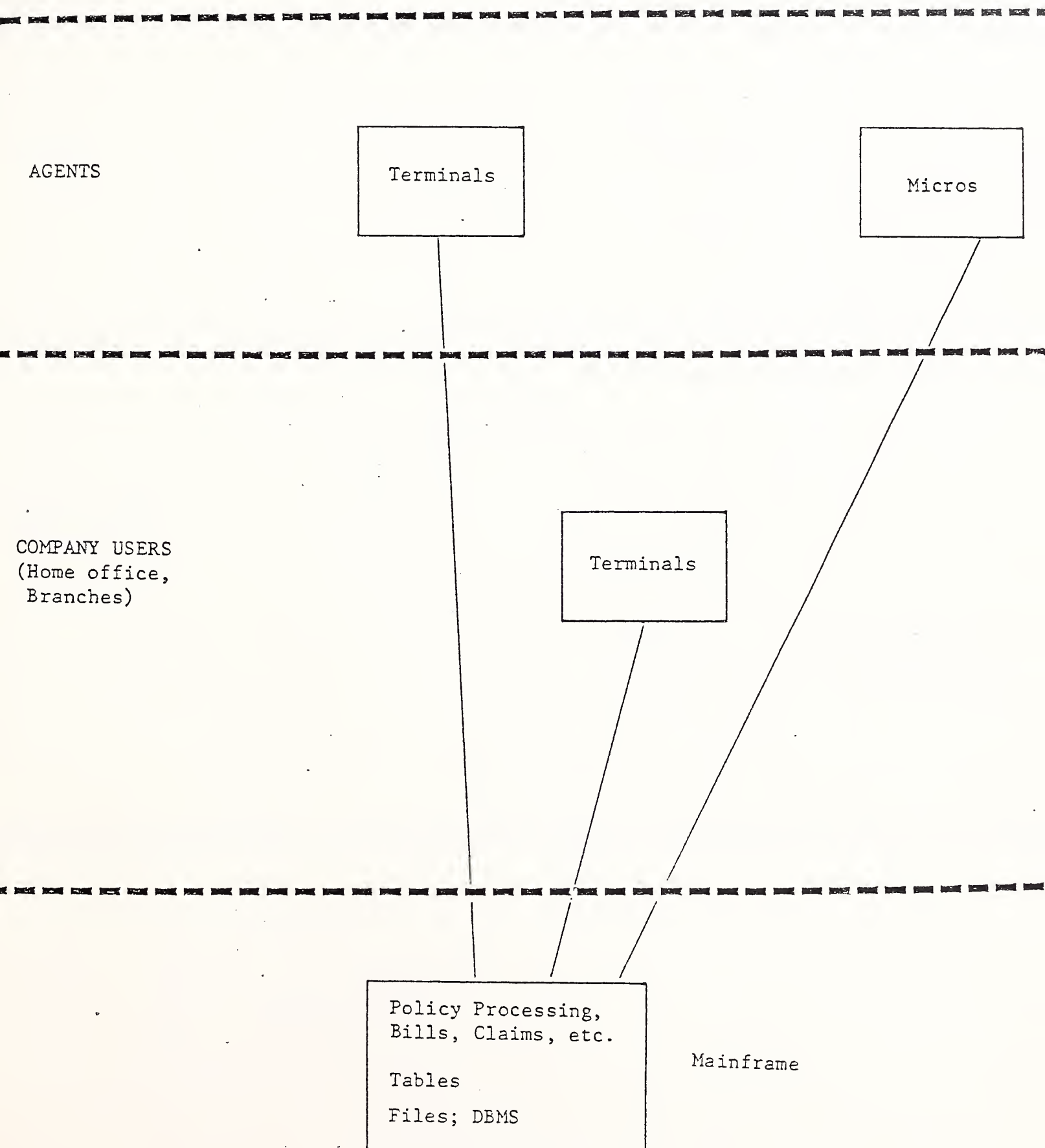
AUTOMATION DIRECTIONS  
AND OPPORTUNITIES

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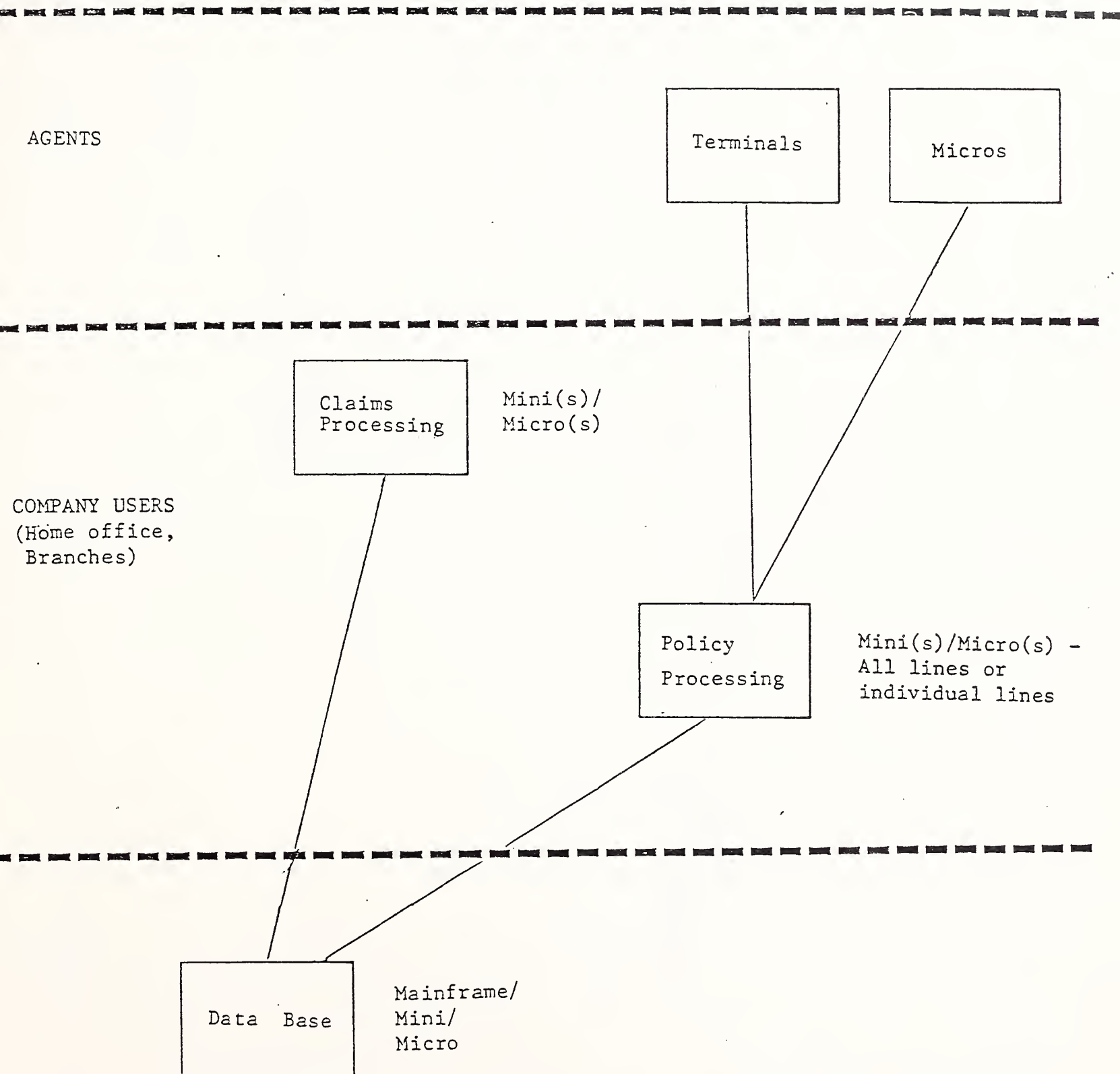


# MAINFRAME (HOST) APPROACH





WORKSTATION APPROACH  
(e.g., new IBM PC/370)





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LEVELS OF INTEREST IN DIFFERENT OFFERINGS

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TYPE OF OFFERING	ENTITY SIZE (COMMERCIAL DIRECT PREMIUMS; \$ MILLION)					AVERAGE RAW WEIGHTED*
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>	<u>RAW</u>	
SERVICE BUREAU N = 28	1.2	1.0	1.3	1.2	1.2	1.2
HIG/HOST SOFTWARE N = 28	1.0	1.0	1.0	1.1	1.0	1.1
WORKSTATION APPROACH N = 32	2.2	2.0	2.5	2.8	2.5	2.7

KEY: 1.0 = LOW LEVEL OF INTEREST  
 2.0 = MEDIUM LEVEL OF INTEREST  
 3.0 = HIGH LEVEL OF INTEREST

\* WEIGHTED BY PREMIUMS



PMS SERVICE BUREAU GROWTH

	NUMBER OF CUSTOMERS BY ENTITY SIZE (DIRECT PREMIUMS; \$ MILLION)						PREMIUMS (\$ MILLION)
	UNDER \$15	\$15-49	\$50-99	\$100-299	\$300+	TOTAL	
1980	5	6	3	2	0	16	\$598
1983	2	6	4	1*	0	13	\$680

\* 16 NEW ENGLAND MUTUALS (14 UNDER \$15 MILLION)





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## REMOTE COMPUTING SERVICE CRISIS

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- PC'S AND IC'S TAKING BREAD AND BUTTER.
- COMMUNICATION COSTS AND UNCERTAINTIES.
- CUSTOMERS NEED FOR INTERNAL CONTROL.
- NEW OPPORTUNITES
  - INFORMATION DISTRIBUTION.
  - INTELLIGENT NETWORKS.
- PROBLEMS IN MAKING TRANSITIONS.
  - DATACROWN/DATATEK
  - UIS/UNINET
  - TYMSHARE
  - INSURANCE RCS FIRMS
    - NUCO
    - INSURANCE NETWORK SYSTEMS
    - PMS



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## EARLY PMS ACCOUNT (SENIOR VICE PRESIDENT)

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- "PMS WAS RIGHT THING TO DO AT TIME, NOT SURE IF IT IS RIGHT CHOICE FOR FUTURE".
  - GOING TO PMS VERSION 7 WHEN IT COMES OUT "ONE OF THESE YEARS".
- (VOLUNTEERED) "YOUR CLIENT'S OPPORTUNITY IS NOT A MAINFRAME SOLUTION, ANOTHER PMS, BUT SHOULD BE BASED ON A MICRO".
  - "ATTACK THE BACK OFFICE FUNCTION".
  - "FIND A NICHE LIKE ISI AND EXPAND".
  - "THERE IS A NEED FOR A NEAT WORK-IN-PROGRESS PRODUCT".
- "OTHER LARGE COMPANIES SEEM TO BE REACHING THE LIMITS OF WHAT IS POSSIBLE ON A MAINFRAME".
  - TWO OF THESE NAMED HAD BEEN INTERVIEWED AND HAD MADE SIMILAR OBSERVATIONS.



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## WORKSTATION CONCEPT POPULARITY: HOST-BASED PROBLEMS

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- INFLEXIBILITY:
  - SYSTEM "WEARING OUT" FROM MODIFICATIONS AND MAINTENANCE.
  - "WE WERE ASSURED THAT WE WOULD NEVER HAVE MULTIPLE WORKERS COMP RATE LEVELS IN ONE STATE, NOW HAVE HUNDREDS."
- MAINTANANCE PROBLEMS:
  - (VOLUNTEERED) "I COULD NOT AFFORT TO SUPPORT A SYSTEM LIKE HARTFORD'S, EVEN IF I GOT THE SOFTWARE FREE." (SIMILAR STATEMENTS MADE REGARDING PMS).
- CHANGING TIMES:
  - SAID BY MAIN ARCHITECT OF A SUCCESSFUL IN-HOUSE SYSTEM IN A LARGE COMPANY: "MY SYSTEM IS THE WRONG APPROACH NOW."



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## WORKSTATION CONCEPT POPULARITY: MICRO ATTRACTION

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- PC ADVANCES
  - IMAGE
  - REALITY OF PRICE/PERFORMANCE
- PERCEIVED MODULARITY
  - REDUCES RISK
  - SPREADS OUT COST
  - FITS IN WELL WITH EXISTING HODGE-PODGE
- SPEED OF INSTALLATION
  - IN-HOUSE MICRO COMMERCIAL LINES APPLICATION INSTALLED IN 1/3 TIME OF SIMILAR INSTALLATION ON HOST-BASED SYSTEM.
- COST
  - IN-HOUSE EXPERIENCES
  - DCI VS PMS: PERCEIVED TO BE A FRACTION OF COST, INCLUDING HARDWARE COSTS.





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DCI: WORST CASE

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- COMPANY NOT ON DCI PUBLIC CLIENT LIST.
  - DCI DIDN'T REALIZE COMPANY'S NON-ISO "QUIRKS".
  - PROMISED SIX MONTHS, WILL TAKE TWO YEARS.
  - COMPANY EMBARRASSMENT AND EXPENSE.
  - DCI LOSING MUCH MONEY.
- COMPANY "STILL HAS POSITIVE FEELINGS" TOWARD DCI.
  - DCI "A COMER, WILL TAKE OFF".
  - "VERY IMPRESSIVE CONCEPT AND IMPLEMENTATION".
  - "AT BLEEDING EDGE OF TECHNOLOGY".
  - "NO ONE ELSE EVEN CLOSE, NO WHERE ELSE TO GO".
  - "NEW WAVE, EXCITING".



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DCI: WORST CASE - (cont'd)

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- DCI CLAIMS SYSTEM "MORE FLEXIBLE, EASIER TO MAINTAIN" THAN MCAUTO'S.
- "EASY MAINTENANCE".
- COMPANY PLANS "A LONG TERM RELATIONSHIP" WITH DCI.



WORKSTATION PLANNING STATUS

	ENTITY SIZE					AVERAGE	
	(COMMERCIAL DIRECT PREMIUMS; \$ MILLION)					RAW	WEIGHTED*
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>			
APPROACH SELECTED	17%	40%	36%	20%	28%		23%
NO SELECTION MADE	83%	60%	64%	80%	72%		77%
GENERAL PLANS	16%	0	18%	60%	28%		48%
NO SPECIFIC PLANS	<u>67%</u>	<u>60%</u>	<u>46%</u>	<u>20%</u>	<u>44%</u>		<u>29%</u>
TOTAL	100%	100%	100%	100%	100%		100%

N = 32

\* WEIGHTED BY PREMIUMS



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COMMERCIAL LINES AUTOMATION:  
CUSTOMER-PERCEIVED OPPORTUNITIES

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	ENTITY SIZE				
	(COMMERCIAL DIRECT PREMIUMS; \$ MILLION)				
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>	<u>AVERAGE*</u>
PERCENT OF COMPANIES UNSURE OF AUTOMATION SOURCE	25%	25%	26%	20%	21%

\* WEIGHTED BY PREMIUMS.

INPUT





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## AGENCY - COMPANY LINKAGES

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- ISSUE AREAS
  - IMPORTANCE
  - INTERFACE ISSUES
  - TYPE OF INFORMATION EXCHANGE
  - HOOKUPS
  - EFFECTS
- DIRECTIONS UNCLEAR
- RESPONDENT COMMENTS
  - COMPANY SIZE IN PARENTHESES

INPUT



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## AGENCY - COMPANY LINKAGE: IMPORTANCE

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- TIEING TO AGENTS WILL BE MORE AND MORE IMPORTANT (C).
- VERY IMPORTANT ISSUE (A).
- LOOKING AT INTERFACE ISSUES VERY CAREFULLY (C).
- A KEY BUSINESS ISSUE (D).
- THE OVERWHELMING INDUSTRY ISSUE (D).
- MAY BE NICE, BUT HAVE NOT CONSIDERED (A).
- COSTS A PROBLEM (D).

INPUT



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## AGENCY - COMPANY LINKAGE: INTERFACE ISSUES

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- STANDARIZATION COMING (C).
- CAN NOT WAIT FOR STANDARDS - MAY NEVER EMERGE (D).
- WORKING ON OWN INTERFACE TO ALL MAJOR TURNKEY SYSTEMS (C).
- WILL INTERFACE WITH ANYONE (D).
- USING VENDOR FRONT END FOR AGENCY INTERFACE (A).
- PMS WILL MAKE IT EASIER TO TIE INTO IVANS (A).
- IVANS MAY NOT BE THE SOLUTION (A).
- WANT ON-LINE HOOKUP, GOING TO TAKE PART IN IVANS (C)



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AGENCY - COMPANY LINKAGE: TYPE OF INFORMATION  
EXCHANGE

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- THERE WILL BE ONE LOCAL PROCESSING (D).
- SOME AGENTS ALREADY HOOKED DIRECTLY INTO SYSTEM (D).
- LARGER AGENTS WILL HAVE DIRECT ACCESS TO FILES AND ISSUE POLICIES (C).
- DOWNLOAD DATA NOW (C).
- AGENTS WILL BE ACCESSING COMPANY FILES SOON, HOPEFULLY, JUST FOR INQUIRY (A).
- DON'T THINK MANY AGENTS KNOW WHAT THEY WANT (A).





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## AGENCY - COMPANY LINKAGE: HOOKUPS

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- MOST COMPANIES WILL EVENTUALLY INTERFACE WITH AGENTS (A).
- SEVERAL PILOTS UNDER WAY (D).
- PLANNING TO TIE DIRECTLY TO 100 KEY AGENTS (D).
- ALREADY 1700 TERMINALS IN DISTRIBUTION NETWORK (D).
- GENERALLY, NO FUTURE FOR PROPRIETARY TERMINALS (D)



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## AGENCY - COMPANY LINKAGE: EFFECTS

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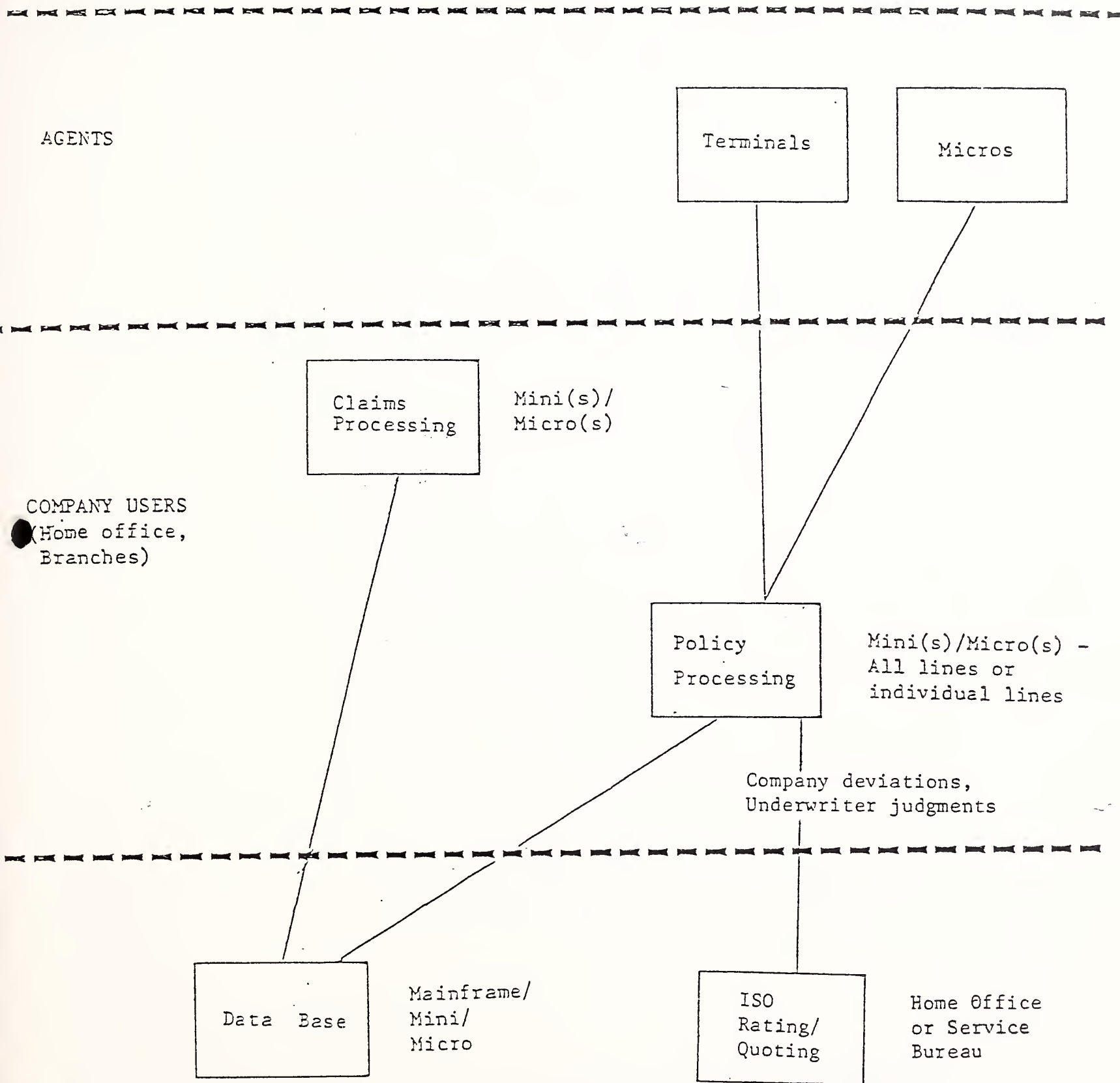
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- DIRECT ACCESS IMPORTANT FOR AGENT EDUCATION (D).
- TECHNOLOGY WILL GIVE AN EDGE (C).
- COMPETITION WILL EMERGE BETWEEN AMOUNT OF "USABILITY" OF COMPETING SYSTEMS (D).



WORKSTATION APPROACH  
(e.g., new IBM PC/370)

CENTRALLY-SUPPORTED QUOTES





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## CENTRALLY - SUPPORTED QUOTATIONS

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- FEW INDEPENDENTLY MENTIONED PLANS.
- LITTLE IMMEDIATE RECOGNITION AS A CRITICAL ISSUE OR UNMET NEED. OUT OF 16 RESPONDENTS:
  - THREE (19%) WERE QUITE POSITIVE.
  - THREE (19%) WERE SOMEWHAT POSITIVE.
  - TEN (62%) WERE NOT POSITIVE.
- LACK OF POSITIVE RECEPTION BECASUE.
  - COMPANIES SEE PMS, ISI, ETC. ALREADY PROVIDING THIS KIND OF SERVICE.
  - THE MORE A COMPANY WAS NON-STANDARD, THE LESS INTEREST THEY HAD.
    - SOME COMPANIES SAW BOTH THEMSELVES AND THE INDUSTRY GOING IN THIS DIRECTION.





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## CENTRALLY - SUPPORTED QUOTATIONS - (cont'd)

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- . "ISO IS DEAD AND DOESN'T KNOW IT".
- . "MANUAL SOON TO BE CEREMONIAL".
- ISO RATES REQUIRE INTERPRETATION ("ISO CURVE BALLS").
- MORE DETAILED PRODUCT DESCRIPTIONS TO UNDERWRITERS MIGHT RECEIVE A DIFFERENT RECEPTION.



COMPETITIVE  
ENVIRONMENT

INPUT



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## OPPORTUNITIES AND SUPPLIERS

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- MAINFRAME-BASED SOFTWARE, E.G.,
  - PMS
  - ADTEC
  - HARTFORD
  - X (TO A LIFE COMPANY'S P&C SUBSIDIARY)
  - IN-HOUSE
- SERVICE BUREAU REMOTE COMPUTING, E.G.,
  - PMS
  - HARTFORD
- SMALL COMPUTER-BASED AND WORKSTATION SYSTEMS (TURNKEY, ESSENTIALLY), E.G.,
  - PMS' BPS (IBM 4300-BASED)



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## OPPORTUNITIES AND SUPPLIERS - (cont'd)

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- DCI DATA CONVEYOR (TEXAS INSTRUMENTS, WICAT, POSSIBLY IBM PC)
- PALLM
- EDS (SIMILAR IN CONCEPT TO DCI; UNDER DEVELOPMENT)
- ISI QUOTING (APPLE, SOON IBM PC)
- HARTFORD??
- IN-HOUSE
- ISO RATE SUPPLYING, E.G.,
  - PMS
  - ISI
  - ISO





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PMS POSITION

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PMS SHARE OF MARKET BY ENTITY SIZE  
(COMMERCIAL DIRECT PREMIUMS; \$ MILLION)

	<u>\$15--49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>	<u>AVERAGE*</u>
PERSONAL LINES	20%	13%	38%	30%	30%
COMMERCIAL LINES					
CURRENT	0	0	19%	20%	18%
PLANNED	30%	13%	19%	20%	21%

\* WEIGHTED BY PREMIUMS.

N = 54

INPUT



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PMS GROWTH RATES

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<u>ANNUAL LICENSEE INCREASE</u>			
	<u>PMS</u>	<u>FINANCIAL SYSTEMS (FMS, SMS)</u>	<u>REVENUE GROWTH</u>
1980	17%	72%	38%
1981	11%	15%	51%
1982	11%	11%	49%

- CONCLUSION: PMS IS MINING CURRENT CUSTOMERS INTENSIVELY.

INPUT



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## PMS EXPANSION

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- INSURANCE PRODUCTS
- TRANSITION PRODUCTS/SEGMENTS
- NEW BUSINESS AREAS

**INPUT**



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## PMS EXPANSION: INSURANCE PRODUCTS

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- BEING OFFERED
  - SMALL COMPANY TURNKEY (BPS)
  - COMMERCIAL LINES PMS COMPONENTS (PARTIAL)
  - REINSURANCE (ON HOLD?)
- UNDER DEVELOPMENT
  - AGENCY - COMPANY ACCESS
  - INSURANCE WORKSTATION (PROFESSIONAL-ORIENTED MICRO)
  - AGENCY TURNKEY SYSTEM (FLORIDA AIA)





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## PMS EXPANSION: TRANSITION PRODUCTS/SEGMENTS

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- OLD PRODUCTS, NEW SEGMENTS
  - ACCOUNT RECONCILIATION SYSTEMS (ARS)
    - FOR LIFE/HEALTH COMPANIES
  - FINANCIAL MANAGEMENT SYSTEM (FMS) AND SECURITY MANAGEMENT SYSTEM (SMS)
    - FOR NON-INSURANCE COMPANIES (HESITANT)
- DATA BASE SERVICES
  - FOR P&C COMPANIES (AT LEAST INITIALLY)
  - EXAMPLES:
    - MOTOR VEHICLE DEPARTMENT DATA
    - COMMERCIAL BUILDING DATA
    - MECHANICS APPRAISAL DATA (FOR AUTOMOTIVE DAMAGE)



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## PMS EXPANSION: NEW BUSINESS AREAS

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- SYSTEMS SOFTWARE
  - PMS PRODUCTS
    - HARDWARE ACCOUNTING
    - CICS MANAGEMENT
  - PANSOPHIC SOFTWARE LICENSEE
    - PRO GRAMMAR
    - MIS/OL
    - LIBRARY CONTROL SYSTEM
- HARDWARE SALES/LEASING (4300 AND SMALLER)
- DISASTER RECOVERY SERVICE

INPUT



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## WORKSTATION MARKET

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- DCI, THE CURRENT PRIMARY WORKSTATION VENDOR HAS THROUGH PLAN OR CIRCUMSTANCES LIMITED ITSELF TO THE HOME OFFICE MARKET, ON A LINE OF BUSINESS BASIS. IT HAS MODULES FOR:
  - WORKERS COMP
  - GENERAL LIABILITY
  - SMP
  - FIRE
  - CLAIMS
- IN ADDITION TO FILLING OUT LINES OF INSURANCE, THERE ARE OTHER OPPORTUNITY AREAS:
  - BRANCH OFFICE CLONES FOR LARGE COMPANIES.
  - AN ASSOCIATED CORPORATE DATA MANAGEMENT SYSTEM.
  - AGENCY INTERFACE



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## WORKSTATION MARKET - (cont'd)

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- PROFESSIONAL WORKSTATIONS (USING DATA SUBSETS FROM THE CORPORATE DATA MANAGEMENT SYSTEM).
- THE POTENTIAL MARKET IN AN INDIVIDUAL COMPANY COULD BE AT LEAST AS LARGE AS PMS.





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DCI VS. EDS

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<u>FACTOR</u>	<u>DCI</u>	<u>EDS</u>
INSTALLATIONS	APPROX. 12	1
SYSTEM MATURITY	MEDIUM	LOW
COMPANY SIZE	APPROX. \$5 MILLION	\$550 MILLION
COMPANY INSURANCE KNOWLEDGE	HIGH	MED/LOW
PRODUCT FLEXIBILITY	MED/HIGH	LOW(?)
PRODUCT ACCEPTANCE	MED/HIGH	LOW

INPUT



MARKET  
OPPORTUNITY

INPUT



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## DATA PROCESSING SPENDING

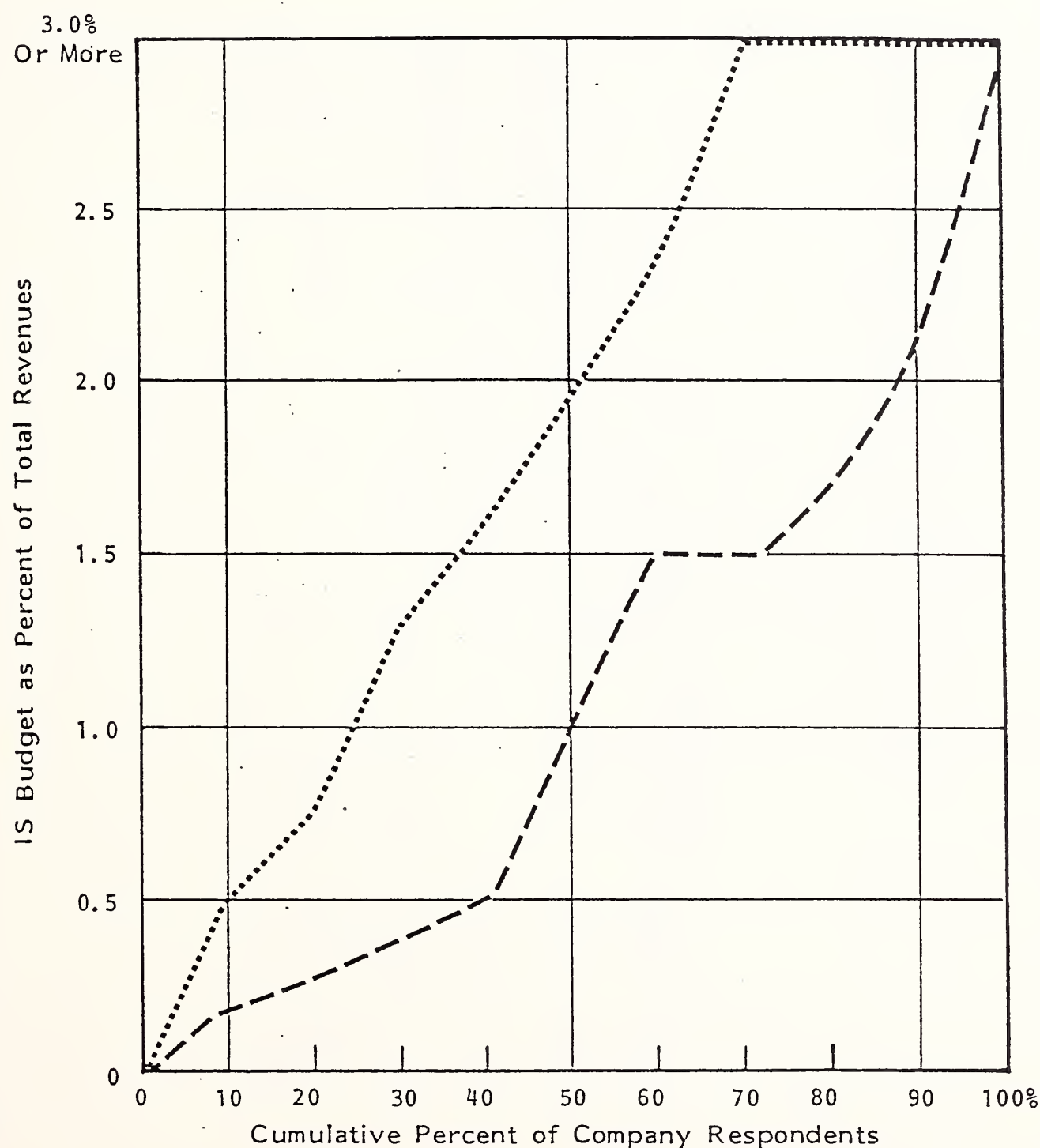
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- VERY FEW FIRM FIGURES FOR COMMERCIAL LINES DATA PROCESSING EXPENDITURES.
  - CONSISTENT WITH LACK OF QUANTIFICATION OF AUTOMATION BENEFITS.
  - COSTS USUALLY EXPRESSED IN TERMS OF NUMBER OF STAFF ASSIGNED; IN MANY CASES REFLECTS HEADCOUNT FOCUS.
- MAJOR CHANGES IN EXPENDITURES (HARDWARE/SOFTWARE/ PERSONNEL) VIEWED FROM A CAPITAL SPENDING PERSPECTIVE.
  - FEW SOPHISTICATED, QUANTIFIED TESTS USED.
- DP SPENDING, LIKE BENEFITS, REFLECTS FAITH AND/OR DEPENDENCE.



INFORMATION SYSTEMS BUDGET AS PERCENT OF TOTAL REVENUES  
IN THE INSURANCE SECTOR



Key: Company Size = ..... \$0 - \$199, --- \$200 and Over

NOTE: Revenues = Premiums (Direct Premiums for P & C) SOURCE: INPUT Surveys





COMMERCIAL LINES DATA PROCESSING EXPENDITURES: 1983

	ENTITY SIZE				
	(COMMERCIAL DIRECT PREMIUMS; \$ MILLION)				
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>	<u>TOTAL</u>
COMMERCIAL PREMIUMS (\$ BILLION)	\$3.4	\$2.2	\$7.4	\$36.8	\$51.3
DATA PROCESSING EXPENDITURES					
PERCENTAGE	1.0%	1.0%	1.0%	1.5%	-
AMOUNT (\$ MILLION)	\$34	\$22	\$74	\$550	\$680
SEGMENT SHARE	5%	3%	11%	81%	100%



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COMMERCIAL LINES DATA PROCESSING EXPENDITURES: 1988

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	ENTITY SIZE (COMMERCIAL DIRECT PREMIUMS; \$ MILLION)				TOTAL
	<u>\$15-49</u>	<u>\$50-99</u>	<u>\$100-299</u>	<u>\$300+</u>	
DATA PROCESSING EXPENDITURES					
PERCENTAGE	1.5%	2.0%	2.0%	1.5%	-
AMOUNT (\$ MILLION)*	\$51	\$44	\$148	\$550	\$793
SEGMENT SHARE	6%	6%	19%	69%	100%

\* NO ALLOWANCE MADE FOR CHANGE IN PREMIUM VOLUME OR INFLATION



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PMS FEES AS PERCENT OF PREMIUMS

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<u>PREMIUM LEVEL</u>	<u>LICENSE FEE</u>	<u>TYPICAL MODIFICATIONS</u>	<u>PMS MAINTENANCE</u>
\$ 8 MILLION	2.5%	1.0%	0.8%
\$20 MILLION	1.5%	0.5%	0.4%
\$70 MILLION	0.5%	0.2%	0.1%
\$300 MILLION	0.2%	0.1%	0.05%

INPUT



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## DP EXPENDITURES ARE NOT A CONSTANT

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- KEY ASSUMPTION: TRADING OFF PERSONNEL DOLLARS FOR DATA PROCESSING DOLLARS.
  - ROUTINELY, COMPANIES CONSIDERING MAJOR EXPENDITURES (E.G., PMS) ASSUME SIGNIFICANTLY HIGHER DATA PROCESSING-RELATED EXPENDITURES.
  - PMS, FOR EXAMPLE, TELLS SMALL AND MEDIUM COMPANIES THAT THEY SHOULD BE SPENDING 2.5% - 3.0% OF PREMIUMS ON DATA PROCESSING.
- MOST COMPANIES HAVE CONTINUED DP GROWTH DURING COST REDUCTION PROGRAMS.
- UNDERLYING BELIEF IN NEED FOR DATA PROCESSING.
- CONSEQUENTLY, VENDORS SALES DO NOT HAVE TO COME AT THE EXPENSE OF THE MIS BUDGET.





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## THE BUSINESS OPPORTUNITY

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- ONE-QUARTER OF COMPANIES OPEN TO NEW APPROACHES/VENDORS.
- DEEP, UNDERLYING ACCEPTANCE OF WORKSTATION APPROACH.
  - EXISTING ENTRANTS, INCLUDING DCI, SCRATCHING SURFACE.
  - EXCEPT FOR SMALL COMPANIES, PMS NOT A DYNAMIC FORCE CURRENTLY.
  - OTHER VENDORS NOT SIGNIFICANT FACTORS.
- "WORKSTATION" STRATEGY:
  - OFFER LOWER-PRICED, MORE FLEXIBLE, MODULARIZED FUNCTIONS THAN PMS.
  - SELL MORE FUNCTIONS.



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THE BUSINESS OPPORTUNITY - (cont'd)

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- TAKE ADVANTAGE OF PREDISPOSITION TO INCREASE DP SPENDING, FURTHER CULTIVATED BY PMS.
- NET EFFECT:
  - . BROADER PENETRATION THAN PMS.
  - . REVENUES PER ACCOUNT AT LEAST AS HIGH AS PMS.

INPUT



SUMMARY

INPUT



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## FINDINGS

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- LITTLE MARKET RECEPTIVITY TO ORIGINALLY PROPOSED OFFERINGS:
  - SERVICE BUREAU BUSINESS.
  - HIG SOFTWARE.
- MARKET VERY RECEPTIVE TO A WORKSTATION PRODUCT.
- PROBABLY, A DEVELOPING MARKET FOR INFORMATION MANAGEMENT, E.G.,
  - INSURANCE DBMS.
  - ACCOUNTING REPORTS (PMS FAULTY?).
  - PROFITABILITY REPROTS.
  - ACTUARIAL REPORTS.
- AGENCY - COMPANY INTERFACE ISSUE IN FLUX.

**INPUT**





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FINDINGS - (cont'd)

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- COMPANIES RECOGNIZE ISSUES AND IMPORTANCE.
- MOST WAITING FOR CLEARER FOCUS IN BUSINESS AND TECHNOLOGICAL ISSUES BEFORE FULL COMMITMENT.
- MOST COMPANIES WILL NEED A GREAT DEAL OF HELP ONE THEY DECIDE.
- DATA FOR CENTRALLY-SUPPORTED QUOTATIONS COULD BE AN OPPORTUNITY. NOT A WELL-PERCEIVED NEED NOW.



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## RECOMMENDATIONS

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- COMMERCIAL LINES SECTOR IS AN ATTRACTIVE MARKET.
  - RAPID ENVIRONMENT CHANGES CALL FOR RESPONSIVE COMPUTER SYSTEMS.
  - POTENTIAL FOR ACCEPTANCE OF NEW PRODUCTS.
  - NO VENDOR HAS A LOCK ON THE MARKET.
- INVESTIGATE OFFERING LOOSELY COUPLED FRONT AND BACK ENDS.
- FRONT END OPTIONS:
  - DOWNSIZED HIG COMPONENTS ON, E.G.,
    - . 4300
    - . PC/370
  - NEWLY-GENERATED CODE BASED ON CLA EXPERIENCE.



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## RECOMMENDATIONS - (cont'd)

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- ACQUIRE AN EXISTING FRONT-END PRODUCT (E.G., DCI).
- BACK END OPTIONS
  - CLA DATA BASE
  - SUBSET OF CLA DATA BASE ARCHITECTURE
  - DATA BASE STRUCTURE DERIVED FROM CLA
  - SAME/DIFFERENT REPORT OFFERINGS AS IN CLA
- INVESTIGATE OFFERING AN AGENCY INTERFACE TO FRONT END.
- SPECIFY COMPONENTS OF A PRODUCT PROVIDING CENTRALLY SUPPORTED QUOTATION DATA.
  - DRAW ON HIG KNOWLEDGE
  - DEFINE FURTHER WITH OUTSIDE SOURCES
  - LEARN ISO PLANS AND SCOPE FOR ADDING FURTHER VALUE BY A VENDOR.
  - TEST MARKET'S RECEPTIVITY







